

RD AN No. 4177 (1980-D)
April 26, 2006

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Community Development Managers

FROM: Russell T. Davis (*Signed by David J. Villano*) for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Appraisals in Remote Rural Areas

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify the use of replacement cost for new construction located in remote rural areas.

This AN addresses the needs of remote areas which contain scattered or small pockets of substandard housing and there is no market data available to support the cost of new construction. Areas typical of this situation include:

- Tribal lands,
- Appalachia,
- The Great Plains, and
- The Delta.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4078 (1980-D), dated May 6, 2005. This AN differs from the previous AN in that it introduces the Scope of Work Rule which will take the place of the Departure Rule on July 1, 2006.

EXPIRATION DATE:
April 30, 2007

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The Appraisal Foundation will revise the Uniform Standards of Professional Appraisal Practice (USPAP) on July 1, 2006. On that date, the Departure Rule of USPAP will be retired, and the Scope of Work Rule will become effective. For purposes of this AN, the Departure Rule will continue as guidance until July 1, 2006. On that date, the Departure Rule will no longer apply and the Scope of Work Rule will take effect.

In remote rural areas, a lack of comparable sales can make it difficult to appraise a new construction property. Remote rural areas are identified by the State Director and are defined as areas with all of the following characteristics:

- Scattered population;
- Low density of residences;
- Not part of a Metropolitan Statistical Area (MSA);
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable sales data.

Departure Rule

In the remote rural areas described above, if the sales comparison approach is not necessary in order to result in opinions or conclusions that are credible, the lender's appraiser may decide to invoke the Departure Rule of USPAP and perform a Limited Appraisal.

The Departure Rule states:

The burden of proof is on the appraiser to decide before accepting an assignment and invoking this rule that the scope of work applied will result in opinions or conclusions that are credible.

In cases in which the lender's appraiser accepts the assignment and invokes the Departure Rule, the appraiser:

- Is not required to complete the Sales Comparison analysis on the *Uniform Residential Appraisal Report (URAR)*.
- Must document his/her unsuccessful efforts to obtain comparable market data for the sales comparison analysis on the *URAR*.
- Must complete *Form 1007, Marshall and Swift Square Foot Appraisal*.
- Must document the results of the cost analysis on the *URAR*.
- Must not consider external depreciation based on the remoteness of the site.
- Must consider factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations.

The Agency should review each Limited Appraisal to ensure that the above requirements were met. Use of the Departure Rule should end and be discontinued on July 1, 2006.

Scope of Work Rule

On and after July 1, 2006, appraisers may invoke the USPAP Scope of Work Rule for remote rural properties with the characteristics described in the Background section above. If the sales comparison approach may not be necessary to develop a credible opinion or conclusion regarding value, the lender's appraiser may decide to use the Scope of Work Rule and perform an appraisal without completing the Sales Comparison approach to value.

The Scope of Work Rule states:

For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser must:

- 1. identify the problem to be solved;*
- 2. determine and perform the scope of work necessary to develop credible assignment results; and*
- 3. disclose the scope of work in the report.*

An appraiser must properly identify problems to be solved in order to determine the appropriate scope of work. Potential problems include a lack of comparable sales. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results. We should note that the scope of work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analysis applied to arrive at opinions or conclusions.

Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal, appraisal review, and appraisal consulting assignments. Credible assignment results require support by relevant evidence and logic. The credibility of assignment results is always measured in the context of the intended use.

In cases in which the lender's appraiser accepts the assignment, the Scope of Work Rule requires the appraiser to explain the exclusion of the Sales Comparison approach to value. The appraiser must complete the assignment using the following instructions:

- Is not required to complete the Sales Comparison analysis on the *Uniform Residential Appraisal Report (URAR)*.
- Must document his/her unsuccessful efforts to obtain comparable market data for the sales comparison analysis on the *URAR*.
- Must complete *Form 1007, Marshall and Swift Square Foot Appraisal*.
- Must document the results of the cost analysis on the *URAR*.
- Must not consider external depreciation based on the remoteness of the site.
- Must consider factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations.

The Agency should review each appraisal to ensure that the above requirements were met.

After a market is established in the remote rural areas, appraisers should no longer invoke either the Departure Rule or the Scope of Work rule in lieu of the Sales Comparison approach. Once there is an established market, the cost approach section of the appraisal must be completed in its entirety when the dwelling is less than one year old. For dwellings more than one year old, the cost approach section of the appraisal need be completed only to the extent necessary to comply with the site value analysis and requirements of RD Instruction 1980-D, Section 1980.313(e). A Marshall and Swift cost approach analysis is not required in such cases.

State Offices having questions regarding this AN should contact Joaquín Tremols or Dave Chaput at (202) 720-1452. Their respective email addresses are joaquin.tremols@wdc.usda.gov and david.chaput@wdc.usda.gov.